MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

2003 ANNUAL REPORT

LETTER OF TRANSMITTAL

Regina, Saskatchewan
February 18, 2004

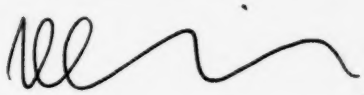
To Her Honour
The Honourable Lynda M. Haverstock
Lieutenant Governor of the Province of Saskatchewan

Madam:

I have the honour to submit herewith the Annual Report of the Municipal Financing Corporation of Saskatchewan for the year ended December 31, 2003, in accordance with **The Municipal Financing Corporation Act.** The financial statements included in this Annual Report are in the form approved by the Treasury Board and have been duly certified by the Corporation's auditors.

I have the honour to be, Madam,

Your obedient servant,



Harry Van Mulligen
Minister of Finance
And Minister Responsible
Municipal Financing Corporation of Saskatchewan

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

BOARD OF DIRECTORS

Honourable Harry Van Mulligen
Chairperson

Honourable Len Taylor

OFFICERS

Mr. Rae Haverstock
General Manager

Ms. Margaret Johannsson
Assistant General Manager

Mr. Jim Fallows
Treasurer

Ms. Marsha Loraas
Secretary

CONTACT INFORMATION

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MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

HISTORY AND CURRENT HIGHLIGHTS – 2003

The Municipal Financing Corporation of Saskatchewan (the Corporation) was established to assist in making capital funds available for the financing of school, hospital and other essential construction and local improvement projects in cities, towns, villages and rural areas throughout the Province. The Corporation may borrow directly from private lending institutions or through the Department of Finance. The Corporation uses the funds borrowed to purchase a portion of the approved debentures sold each year by Saskatchewan local governments.

During 2003, the Corporation participated in the financing of seven projects in Saskatchewan by purchasing $2.0 million of municipal debentures. Five of the debentures financed sewer and water projects, one debenture financed a paving project and one debenture financed the construction of an arena.

The Corporation's debenture holdings at December 31, 2003 totaled $21.6 million, down $0.6 million from the total at December 31, 2002.

The Corporation recorded net earnings of $35,000 in 2003 compared to a loss of $658,000 for 2002. The improvement was caused by a reduction in interest expense that resulted from the maturity of $5.7 million of long term debentures payable. The $35,000 surplus was not significantly different from the amount budgeted (see note 9 to the financial statements).

For 2004, interest expense will again decline somewhat due to the maturity of one of the Corporation's debentures payable and the effect of receiving a full year's benefit of the debenture payable that matured in 2003. As a result, the Corporation expects to record a slightly higher surplus in 2004.

The Municipal Financing Corporation of Saskatchewan is administered by a Board of Directors through the use of staff and facilities provided by the Department of Finance. The Corporation incurred $25,000 of administrative expenses in 2003. These expenses were for audit fees and the reimbursement of the costs to the Department of Finance of providing administrative services. The Directors of the Municipal Financing Corporation of Saskatchewan do not receive fees and, with the exception of interest paid on borrowed funds, the Corporation had no other expenses in the current year.

A table showing results of operations for 2003, as compared to the previous year, as well as a detailed listing of debentures purchased in the current year is presented on page 4.

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

COMPARATIVE TABLE OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31

	2003	2002
	(thousands of dollars)	
Amount of debentures approved by the Corporation	$ 4,568	$ 2,546
Prior year's purchase commitments carried forward	296	345
Total purchase commitments for the year	4,864	2,891
Purchases completed	1,994	2,595
Purchase commitments outstanding at the year end	$ 2,870	$ 296

DEBENTURES PURCHASED IN 2003
(thousands of dollars)

Village of Grand Coulee	$ 45
Town of Esterhazy	174
Village of Paddockwood	77
Town of Leader	322
Resort Village of Manitou Beach	497
Town of Indian Head	754
Town of Dalmeny	125
	$ 1,994

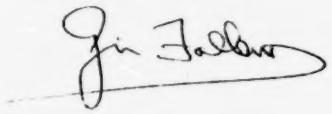
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management has prepared the financial statements of the Municipal Financing Corporation of Saskatchewan in accordance with Canadian generally accepted accounting principles applied on a basis consistent with that of the previous year. Management is responsible for the reliability and integrity of the financial statements and all other information contained in this Annual Report.

Management has the primary responsibility for the integrity and objectivity of the financial statements. To fulfill this responsibility, management maintains appropriate systems of internal controls, policies and procedures to provide reasonable assurance that assets are safeguarded and that the books and records reflect the authorized transactions of the Corporation.

E.J.C.Dudley & Co., the Corporation's external auditors, have reviewed the systems of internal control and audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express their opinion on the financial statements. Their report appears on the following page.

The financial statements have been examined and approved by the Board of Directors.



Rae Haverstock
General Manager

Jim Fallows, CA
Treasurer

February 18, 2004

AUDITOR'S REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the statement of financial position of the Municipal Financing Corporation of Saskatchewan as at December 31, 2003 and the statements of earnings and reinvested earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Regina, Canada
January 27, 2004

E. J. C. Dudley & Co.
Chartered Accountants

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

STATEMENT OF FINANCIAL POSITION

As at December 31

	2003	2002
	(thousands of dollars)	
ASSETS		
Current Assets		
Due from the General Revenue Fund (Note 3)	$ 125	$ 569
Short term investments	2,496	1,985
Interest receivable	618	936
Municipal debentures receivable within one year	1,668	2,493
	4,907	5,983
Investments in municipal debentures (Note 4)	19,966	19,686
Deferred financing charges	46	0
	$ 24,919	$ 25,669
LIABILITIES AND PROVINCE'S EQUITY		
Current Liabilities		
Interest payable and accrued liabilities	$ 305	$ 406
Debentures payable within one year	9,391	5,684
	9,696	6,090
Long term debentures payable (Note 6)	5,000	9,391
Province of Saskatchewan's Equity		
Reinvested earnings	10,223	10,188
	$ 24,919	$ 25,669

Commitments (Note 8)

See accompanying notes to the financial statements

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

STATEMENT OF EARNINGS AND REINVESTED EARNINGS

For the Year Ended December 31

	2003	2002
	(thousands of dollars)	
Revenue		
Investment income - municipal debentures	$ 1,517	$ 1,697
Investment income - short term investments and cash balances	39	243
Gain on redemption of municipal debentures (note 4)	0	421
	1,556	2,361
Expenses		
Interest on debt	1,496	2,994
Administration	25	25
	1,521	3,019
Net earnings (loss)	35	(658)
Reinvested earnings, beginning of year	10,188	10,846
Reinvested earnings, end of year	$ 10,223	$ 10,188

(See accompanying notes)

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

STATEMENT OF CASH FLOWS

For the Year Ended December 31

	2003	2002
	(thousands of dollars)	
Operating Activities		
Interest received from municipal debentures	$ 1,569	$ 1,855
Interest received from short term investments	52	299
Interest paid on debt	(1,606)	(3,781)
Payments to suppliers	(25)	(25)
Cash (used in) operating activities	(10)	(1,652)
Investing Activities		
Purchase of municipal debentures	(1,994)	(2,595)
Amortization of discounts and premiums	(1)	(10)
Proceeds from maturing municipal debentures	2,804	2,174
Proceeds from sale of municipal debentures	0	4,753
Cash provided by investing activities	809	4,322
Financing Activities		
Repayment of long term debt	(5,684)	(18,790)
Issuance of long term debt	5,000	0
Deferred financing charges	(48)	0
Cash (used in) financing activities	(732)	(18,790)
Net increase (decrease) in cash equivalents during the year	67	(16,120)
Cash equivalents, beginning of year	2,554	18,674
Cash equivalents, end of year	$ 2,621	$ 2,554
Represented by:		
Due from the General Revenue Fund	125	569
Short term investments	2,496	1,985
	$ 2,621	$ 2,554

(See accompanying notes)

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

1. Significant Accounting Policies

The Corporation's accounting policies are in accordance with Canadian generally accepted accounting principles. The following are considered to be significant:

Short term Investments

Short term investments are carried at cost. They consist entirely of highly liquid money market instruments that have very short maturity dates.

Investments in Municipal Debentures

Investments in municipal debentures are carried at amortized cost. The Corporation sometimes purchases debentures at a premium or discount where the interest rate yield required by the Corporation varies from the coupon interest rate offered by the local governments. Premiums and discounts in excess of $250 on the investment's purchase date are amortized to income using the straight-line method over the life of the investment. In this way, effective income derived from each debenture is adjusted to equal the Corporation's required yield for that debenture to its maturity.

Deferred Financing Charges

Deferred financing charges relate to the long term debenture and are amortized on a straight-line basis over the ten year term of the loan.

Market Value of Short term Financial Instruments

For certain of the Corporation's financial instruments, the carrying amounts approximate fair value due to the immediate or short term maturity of these financial instruments. These short term financial instruments include cash and short term investments, interest receivable, municipal debentures receivable within one year, accounts payable and accrued liabilities, and debentures payable within one year.

2. Status of the Corporation

The Municipal Financing Corporation of Saskatchewan was established in 1969 pursuant to the provisions of **The Municipal Financing Corporation Act**. The Corporation's objective is to assist municipalities in financing their capital requirements.

The Corporation is a Provincial Crown corporation and is therefore not subject to Federal or Provincial income tax but is subject to Provincial corporation capital tax.

3. Due from General Revenue Fund

The Corporation's bank account is included in the Consolidated Offset Bank Concentration arrangement for the Government of Saskatchewan.

The Corporation's earned interest is calculated and paid quarterly by the General Revenue Fund to the Corporation using the General Revenue Fund's thirty day borrowing rate and the Fund's average daily bank account balance.

4. Investments in Municipal Debentures

The Corporation invests in fixed rate debentures issued by schools, hospitals, cities, towns, villages and rural municipalities throughout the Province of Saskatchewan. The Corporation's policy is to limit its purchase of debentures to no more than 50% of the total authorized borrowings of a capital project, except for water and sewer projects which can be up to 100% of the authorized borrowings. All issues of debentures purchased by the Corporation must be approved by the Saskatchewan Municipal Board.

The Corporation has an investment in 59 (2002 - 58) debentures issued by 44 (2002 - 46) issuers with a weighted average yield of 6.66% (2002 – 6.84%) and maturity dates ranging from 2004 through 2019.

The carrying amount invested by issuer category is as follows:

	2003	2002
	(thousands of dollars)	
Cities	$ 10,423	$ 11,238
Rural Municipalities	167	182
Schools	332	1,179
Towns	8,314	7,598
Villages	2,398	1,982
	21,634	22,179
Receivable within one year	1,668	2,493
	$ 19,966	$ 19,686

The fair value of these debentures is $23.7 million (2002 - $24.5 million). This fair value is determined by discounting the debentures' future cash flows using investment rates presently available to the Corporation for investments with similar terms and remaining maturity, less costs of settlement.

The Corporation's policy is to permit borrowers to redeem debentures prior to maturity. The redemption price is set at the face value of the debenture plus 50% of the difference between the face value of the debenture and its fair market value. During 2003, no debentures were redeemed. In 2002, debentures with a face value of $4,332 thousand were redeemed for proceeds of $4,753 thousand.

5. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan. Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. These transactions are as follows:

	2003	2002
	(thousands of dollars)	
Interest on long term debt	$ 1,496	$ 2,686
Administration	20	20

Other amounts due to related parties and the terms of settlement are described separately in the financial statements and the notes thereto.

6. Debentures Payable

Maturity Date	Rate (%)	2003	2002
		(thousands of dollars)	
General Revenue Fund			
March 1, 2003	12.16	---	5,684
November 9, 2004*	12.96	9,391	9,391
June 17, 2013**	4.75	5,000	---
		14,391	15,075
Repayment required within one year		9,391	5,684
Long term debentures payable		$ 5,000	$ 9,391

* The 12.96% November 9, 2004 debenture is subject to redemption by the GRF on six months notice. The GRF has notified the Corporation that it does not intend to redeem this debenture prior to maturity. This debenture is also callable on 30 days prior notice at the option of the Corporation.

**Under conditions attached to the 4.75% June 17, 2013 debenture, the Corporation is required to pay annually into sinking funds administered by the Saskatchewan Department of Finance a minimum of one per cent of the original principal. The first sinking fund payment is due in June 2004.

Principal payments and sinking fund installments for the next five years are as follows (in thousands of dollars):

2004	- $	9,441
2005	- $	50
2006	- $	50
2007	- $	50
2008	- $	50

The fair value of debentures payable is $15.1 million (2002 - $16.8 million). This amount is determined by discounting the debentures' future cash flows using borrowing rates presently available to the Corporation for debt with similar terms and remaining maturity, less costs of settlement.

7. Interest Rate Risk

The Corporation is exposed to interest rate risk due to the nature of its operations. Interest rate risk is created when the maturity dates of an entity's assets and liabilities are not precisely matched. The following table shows the matching of the Corporation's assets and liabilities:

Year of Maturity	Financial Assets	Financial Liabilities	Difference 2003	Difference 2002
		(thousands of dollars)		
2003	$ –	$ –	$ –	$ (107)
2004	4,907	9,696	(4,789)	(7,823)
2005	1,617	–	1,617	1,508
2006	1,887	–	1,887	1,772
2007	2,002	–	2,002	1,893
2008	1,977	–	1,977	–
Thereafter	12,529	5,000	7,529	12,945
	$ 24,919	$ 14,696	$ 10,223	$ 10,188

The effective interest rates on the Corporation's assets and liabilities are as follows:

Cash and short term investments	2.75%
Investments in municipal debentures	6.66%
Debentures payable	10.14%

8. Commitments

Prior to December 31, 2003, the Corporation had approved the purchase of debentures from certain local governments of which $2,870 thousand were not purchased before year end.

9. Operations Budget

	Budget 2003
	($ 000's)
Revenue	
Investment income - municipal debentures	$ 1,500
Investment income – short term Investments and cash balances	15
	1,515
Expenses	
Interest on long term debt	1,450
Administration	25
	1,475
Net earnings	$ 40